FitchRatings

FITCH AFFIRMS NORWEGIAN SPAREBANKEN; OUTLOOK STABLE

Fitch Ratings-London-23 February 2012: Fitch Ratings has affirmed SpareBank 1 SMN's (SMN), SpareBank 1 SR-Bank's (SR), SpareBank 1 Boligkreditt's (S1B), Sparebanken Vest's (SV) and Sparebanken Vest Boligkreditt's (SVB) Long-term Issuer Default Ratings (IDR) at 'A-' with Stable Outlooks and Short-term IDRs at 'F2'. The agency has also affirmed SpareBank 1 Nord-Norge's (SNN) Long-term IDR at 'A', with a Stable Outlook and Short-term IDR at 'F1'. A full list of ratings actions is at the end of this release.

SNN, SMN, SR and SV's ratings (collectively Sparebanken) benefit from Fitch's expectation that Norway's economic outlook will stay benign and asset quality remain sound. Fitch forecasts Norway's GDP to expand by 2.2% in 2012 and 2.5% in 2013. The ratings are sensitive to any change in these assumptions as well as any changes to Fitch's assumption that wholesale investors will continue to perceive Norway as a safe haven.

Deposits account for a significant proportion of the Sparebanken's non-equity funding, but the banks also rely on wholesale markets for part of their structural funding. A substantial part of wholesale funding is raised through the issuance of covered bonds. Norway's domestic covered bond investment market is relatively new and small, when compared with issuance volumes, and banks consequently rely on an international investor base. Access to international wholesale funding has remained robust in 2011, driven by healthy investor appetite from a geographically broad range of investors of which a substantial part is from Germany. Fitch notes that while international issuance has diversified the Sparebanken's investor base, this also exposes them to international funding market sentiment. While wholesale funding markets have remained largely open for Norwegian banks, the cost of funding has increased. However, spreads and market access benefit from investors' perception of Norway as a safe haven.

Fitch considers a property price correction as a downside risk for Norwegian banks. Residential real estate prices have increased strongly throughout Norway, with the country's western regions having experienced the fastest price appreciation. If prices are deflated by income growth, the increase is less dramatic but still material. While Fitch acknowledges that fundamental factors appear to be the key drivers behind the price growth, such as low supply of new housing, high home ownership, population growth and low interest rates, the agency expects that growth will level off and a moderate fall cannot be ruled out. In its base case, the agency does not expect this to lead to significantly higher loan impairment charges in the Sparebanken's residential mortgage portfolios but believes falling consumer confidence or increasing savings rates to be a more likely scenario. This in turn may affect corporates' profitability and may lead to deteriorating asset quality in the corporate book.

The Sparebanken's creditworthiness continues to benefit from their well entrenched regional franchises and their good core operating profitability, although the latter benefits substantially from low loan impairment charges. The high competition in Norway's banking sector and rising wholesale funding costs have put pressure on the Sparebankens' margins, and Fitch expects margins to remain relatively flat in 2012. Cost/income ratios across the Sparebanken are relatively high when compared with international peers. This is largely driven by a lack of significant economies of scale and high cost bases.

SR
The affirmation of SR's ratings in particular reflects its strong position in the growing Western Norwegian economy, the agency's expectation that asset quality will remain sound and the bank's announced plans to increase capitalisation. However, property prices in SR's region have increased much more strongly than the national average, making the bank's asset quality sensitive to a potential price correction. SR also relies more heavily on wholesale funding than other rated

Alliance members, which makes the bank more sensitive to a prolonged dislocation of international wholesale funding markets or a change in sentiment to Norwegian issuers.

SMN
SMN's ratings are driven by Fitch's expectation that the bank's asset quality will remain sound, backed by the diversified economy in mid Norway. Similar to SR, SMN has announced a fully underwritten rights issue to improve its capitalisation. Single name concentration remains a moderate risk.

SNN
The affirmation of SNN's ratings in particular reflects its lower dependency on market funding, property prices that have risen largely in line with the national average and somewhat wider lending margins due to lower competition. Fitch regards the combination of these factors to make the bank a more resilient credit than the other rated Alliance banks. SNN's asset quality also benefits from its majority retail lending, while single name concentration remains a moderate risk. Fitch considers SNN to be well capitalised and its earnings generation to be solid.

S1B
The ratings of S1B are aligned with its largest shareholders, reflecting its role as a strategically important covered bond funding vehicle. Given S1B's close integration in the Alliance, it has not been assigned a Viability Rating.

SV
The affirmation of SV's ratings reflects its sound risk profile and good capitalisation. Around three-quarters of SV's lending related to retail and mainly mortgage lending at end-2011 and Fitch expects asset quality to remain robust. Wholesale funding dependence is significant although SVB, its wholly-owned covered bond vehicle, has diversified the funding base and provides SV with access to competitive funding rates. SVB's ratings are aligned with SV's, reflecting its close integration in the group and strategic importance. Given its close integration, it has not been assigned a Viability Rating.

The downgrades of the Tier 1 instruments reflect the implementation of Fitch's new criteria for 'Rating Bank Regulatory Capital and Similar Securities' (available on www.fitchratings.com). The Tier 1 instruments that were placed on Rating Watch Negative (RWN) in December have been downgraded to 'BB+' from 'BBB', and removed from RWN. The Sparbanken's Tier 1 instruments are now rated four notches below each issuer's Viability Ratings to reflect loss given the instruments' relative seniority (two notches for Tier 1 instruments) and the incremental non-performance risk relative to the point at which a bank becomes non-viable (two notches).

These rating actions have no impact on the ratings of the covered bonds issued by S1B and SVB.

The rating actions are as follows:

SMN:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A-'
Subordinated debt affirmed at 'BBB+'
Hybrid capital instruments downgraded to 'BB+' from 'BBB'; removed from RWN

SR:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'

Senior unsecured debt affirmed at 'A-'
Hybrid capital instruments downgraded to 'BB+' from 'BBB'; removed from RWN

SNN:
Long-term IDR affirmed at 'A'; Outlook Stable
Short-term IDR affirmed at 'F1'
Viability Rating affirmed at 'a'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A'
Subordinated debt affirmed at 'A-'

S1B:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Support Rating affirmed at '1'

SV:
Long-term IDR affirmed at 'A-'; Outlook Stable
Short-term IDR affirmed at 'F2'
Viability Rating affirmed at 'a-'
Support Rating affirmed at '3'
Support Rating Floor affirmed at 'BB+'
Senior unsecured debt affirmed at 'A-'
Subordinated debt affirmed at 'BBB+'
Hybrid capital instruments downgraded to 'BB+' from 'BBB'; removed from RWN

SVB:
Long-term IDR affirmed at 'A-', Outlook Stable
Short-term IDR affirmed at 'F2'
Support Rating affirmed at '1'

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Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2011; are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171